Faith, hope and charity

WINNER: Yashwant Gaunder, publisher and editor of *The Review* in Fiji, won the inaugural 1996 Pacific Investigative Journalism Award for his report on the failings of the National Bank of Fiji.

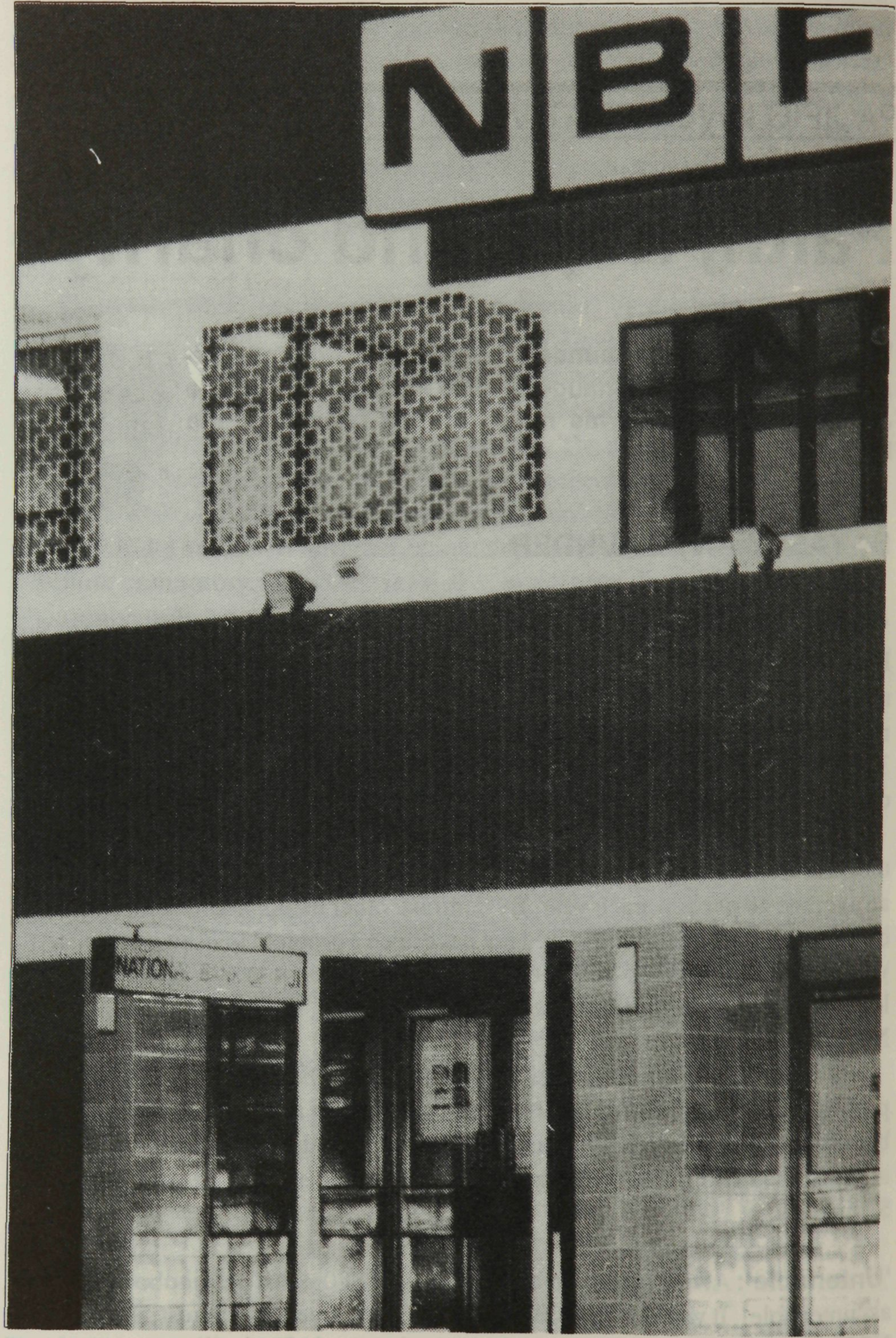
By YASHWANT GAUNDER

'THE NATIONAL Bank of Fiji is, for all interests and purposes, insolvent.' So Fiji's Minister of Finance Berenado Vunibobo told an emergency cabinet meeting last June 15. He wasn't exaggerating. NBF's paid-up capital F$15 million. Its doubtful loans are estimated at between $90m and $120m — 23 to 30 per cent of its total loan portfolio. Partly as a result, the NBF also has a serious cashflow problem.

Ignoring Reserve Bank of Fiji concerns as early as 1992 to contain lending, the bank went on a spending spree. Between 1990 and 1993, its lending grew by an average 40 per cent each year. By contrast, other banks' loans were growing by around six per cent. That would not have been a problem in itself but the NBF was lending long (10-15 years) on 3-6 month term deposits. When depositors left NBF chasing higher-interest government bonds, the inevitable happened. NBF ran out of cash.

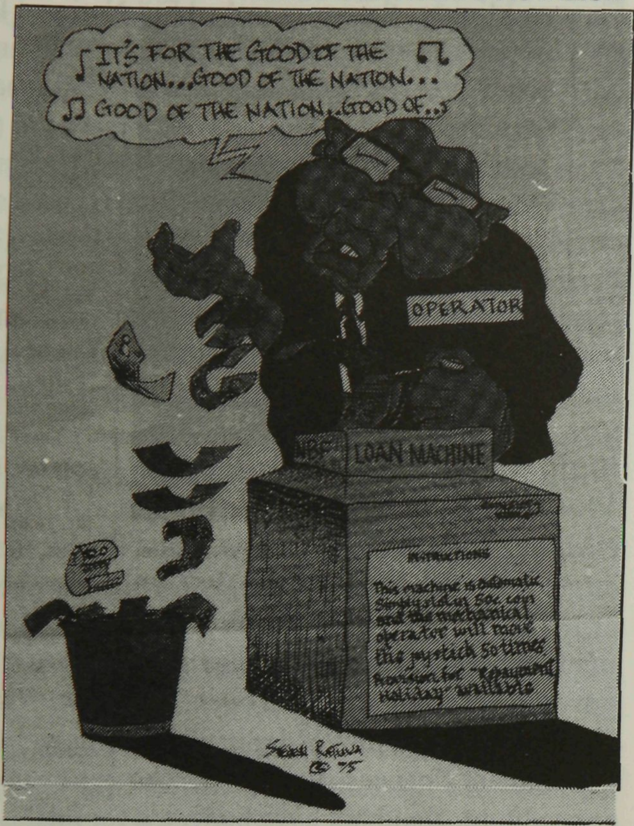
'I was shocked. It is fundamentally flawed,' Vunibobo told *The Review*. The problems came to a head in late 1993, forcing NBF to rely heavily on overnight borrowings from the Reserve Bank at four per cent interest. Overnight borrowings climbed from around $15m-$20m in December 1993. It now stands at $70m.

'Untenable': At one stage, it reached a peak of $80m that Vunibobo describes as 'untenable'. It was costing NBF more than $3m a year in interest. So bad was NBF's liquidity position that it had to turn down a $12m facility requested by



The National Bank of Fiji ... 'untenable' problems. PHOTO: *The Review*

Vodafone — a premium customer. The account went to ANZ Bank. The Reserve Bank put in $15m of Fiji government sinking fund deposits and its own funds to contain the situation at the end of 1993. This package was made available on condition that loan growth be contained at $355m. But the loans have increased to $390m and the liquidity shortfall last June was still over $70m. If drastic action had not been taken, this position would have worsened.



Fearing a run on bank funds following adverse media publicity, the government brought forward the June 20 cabinet meeting to June 15 and went public with NBF's problems. Vunibobo assured depositors, however, that their funds were guaranteed by government and secure. But he knew it would take more than three years to rehabilitate the bank.

A lack of appropriate accounting, loan grading, provisioning and auditing has meant that the true state of NBF affairs has been hidden. Only late in 1994 was a loan grading system — all commercial banks have them — put in place. The Reserve Bank also insisted on the setting up of a Treasury unit late in 1994. Such a unit is essential for keeping track of bank cashflow.

Achilles heel: Another Achilles heel is the poor management information system (MIS). A World Bank expert who reviewed the state of affairs at NBF in May compares the MIS to driving at high speed on a highway in a car without a dashboard or a steering wheel. Vunibobo set the wheels in motion for an NBF audit soon after presenting his first budget in 1994. Vunibobo had written to Prime Minister Sitiveni Rabuka in December expressing concern at the possible state of affairs at NBF and appointed Senators Don Aidney and Adam Dickson, both chartered accountants, to carry out an independent audit. The

Finance Minister then approached Fiji National Provident Fund general manager Lionel Yee, a major player in the local financial market, to head the new NBF board. Yee replaced Vunibobo as FTPL chairman in 1994.

When the Aidney-Dickson audit report and the World Bank review were given to him, Vunibobo's worst fears were confirmed. The audit estimated more than $93m in 'uncollectable' loans. This is based on a survey of only 55 per cent of the loan portfolio. The World Bank estimates loans to be as high as $120m. Former NBF deputy chief manager and current Carpenters MBf acting managing director Kalivati Bakani and former chairman Winston Thompson disagree with the figures. Following the grading of loans in 1994, Bakani estimated $30 million in doubtful loans.

'Split hairs': Whether this provision has been made for the year to June 30, 1994, remains to be seen. The 1994 annual report has not been issued. While everyone can split hairs on the actual figure, the fact remains that it is a very large, said Vunibobo. A major problem is the undercapitalisation of NBF especially as the Reserve Bank will require all banks to meet an eight per cent minimum capital adequacy requirement by 1997. To help NBF achieve this, government will have to put over $100m into NBF in the next two years unless NBF's position improves dramatically. This would have a devastating impact on government finances. Vunibobo, who has been trying to control government expenditure, could not have budgeted for this.

'I am not prepared to put any money on NBF unless the real problems are solved,' he told *The Review*. Liquidity, asset quality and capital adequacy are perceived problems — symptoms of underlying problems. Injecting funds will be a temporary remedy, but drastic action will be needed to resolve all the bank's problems, warns Vunibobo. So government was left with only two alternatives for NBF: A firmly managed rehabilitation over the next five years or the Reserve Bank to assume control of NBF and liquidate it. Cabinet was asked to back the first option.

The Auditor-General's office had raised several smaller issues relating to the NBF in the past. Auditor-General Ramesh Dutt first raised the alarm about the emerging problems at NBF in 1993. In question was more than $28 million given for four separate loans. Each breached the requirements of the Banking Act under which no bank can lend more than 25 per cent of its issued capital and reserves to any individual borrower unless authorised by the Minister of Finance.

Knocked back: However, Thomson in his reply to Dutt said an exemption from this requirement was granted in 1984 by the then minister Mosese

Qionibaravi, and the NBF has continued to rely on this exemption. Vunibobo says he has now revoked the exemption and, since his appointment as minister in August 1994, has knocked back at least two applications. Dutt also questioned several loans which appeared doubtful of recovery and for which adequate provision was not made. Asked for specific cases, Thompson said he was assured by management that a higher provision had been made, but had been reduced by the auditors during the audit. The increase in provision for doubtful debts for the year to June 30, 1993, amounted to $1.50m ($2.53m the previous year), bringing the total provision to $16.25m. Bad debts of about $220,000 were written off for the June 1993 year ($118,000 the previous year).

The June 1993 annual report — the last issued — says NBF's policy on doubtful debts is to provide for debts identified each year and to make a general provision at the rate of 0.75 per cent of total loans and advances, excluding specified doubtful debts.

Leaked report: In his 1994 report, leaked in June 1995 to Fiji TV, Dutt says the situation has generally not changed. Approval limits are exceeded in Rotuma, repayments are generally irregular, loans are repaid from overdrawn personal accounts, loans are not reviewed or monitored, and there is no insurance cover for some loan securities. Dutt again questioned the four loans of more than $28m, the Stinson Pearce Group account is the largest at more than $8.6m. Interest on this account has been frozen since 1987. Otherwise more than $20m would have been accrued to 1995.

Another 28 loans worth $22m appeared irregular, said Dutt's 1994 report which also noted that:

❑ Fifteen million dollars in mortgage lending was secured over properties for which there is no evidence of insurance cover.

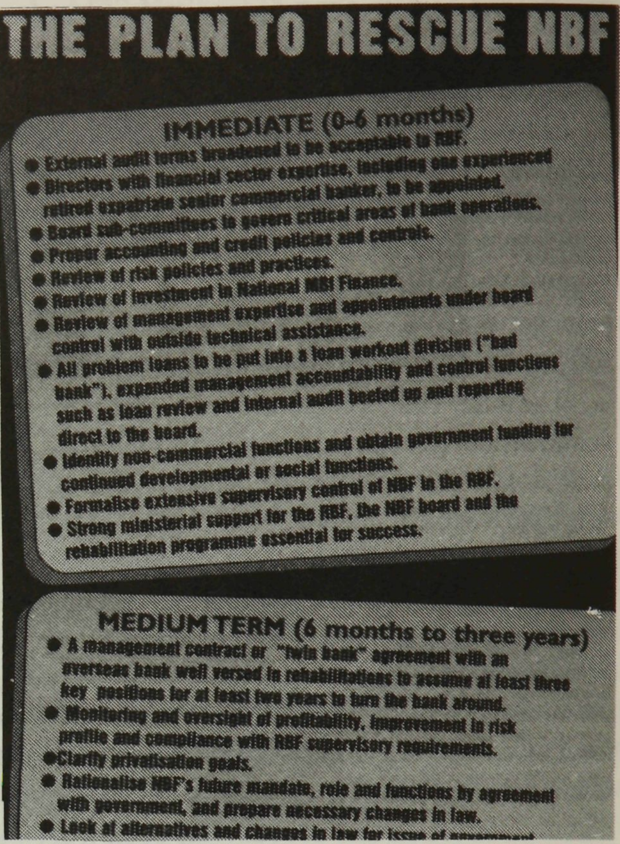
❑ Twenty loans worth $7m for which payments were neither not being made or so irregular that the value of the debt was rising.

❑ For another 12 loans worth $3.5m, borrowers were not even paying back the interest, let alone the principal.

❑ For some 27 loans totalling $19m, repayments were being made from the borrowers' overdrawn current account so the bank was servicing its own interest income.

❑ Six staff members got loans of up to $500,000 to finance the purchase of cars, houses and personal items.

All loans were outside the bank's guidelines on staff lending. For the second year running, Dutt could not get access to documents relating to senior staff salaries and payments. NBF insists it can only make the documents available to senior audit staff or the Auditor-General and not junior staff conducting the audit. Tropikana Ltd, a $2 company in which NBF chief assistant manager Masimeke Latianara had an interest, is one of the big borrowers. It owes more than $3m. Latianara has since resigned as director but appears to remain a shareholder.



Loans review: Yee says NBF is now reviewing commercial loans to staff and the involvement of senior managers in private companies. Many NBF staff, while well paid and with easy access to loans, were demoralised by some of the goings-on in the bank. Nepotism in promotions was a concern raised a few times.

Manager administrative services Wilson Epeli was told by his superiors he was being demoted to manager special duties due to a 'singular lack of confidence'. He was later transferred to Nausori. Epeli wrote to the management several times during 1992 appealing the decision against him, finally in frustration writing to Rabuka. No action was taken over Epeli's allegations although the Fiji Intelligence Service tried to conduct its own inquiry.

Epeli told Rabuka that large loans without adequate security had been given to 16 companies and two individuals. He claimed that:

❑ Executive committee members gave loans under interest-free code 8888 to friends and approved loans declined by branch managers.

❑ Kickbacks were given for loans approved to clients.

❑ NBF staff and their relatives had bought houses on the cheap from an NBF corporate customer. The company owes NBF $2.4m and is now in liquidation. Assets secured to NBF were transferred from the company with the help of NBF, claims Epeli, and directors' guarantees removed.

❑ Goods and services tenders were awarded to uncompetitive bidders and items bought from companies in which NBF managers had interests. Epeli also highlights the sale of an NBF property in Simla, Lautoka, to an NBF manager in 1992 for $58,000. The Thompson Crescent property is believed to have been worth $120,000 then.

Status house: When the then Minister for Forests, Ratu Serupepeli Naivalu, wrote to the bank questioning the sale, Makrava told him the sale of NBF assets was NBF's perogative. It had previously been offered for sale to other staff, but prices were below the minimum. The $58,000 was above the 1986 valuation of the property. Makrava said: 'We regret that we were unable to give the MP for Ba the opportunity, but we hope that you will soon find a house suitable to your status in Simla.'

The signs were always there, says Yee, that things weren't right. 'Certain events and the behaviour of NBF staff' had not given him much confidence. These included huge loans without appropriate security and excessive staff loans — many for consumption purposes.

There were probably high hopes and good intentions, says Yee. 'But for the people who view banking as managing deposits in a prudent fashion, this was adventurous, perhaps innovative banking. Some would view it as reckless, although that might be too strong a word.'

One of the major problems was that NBF managers were giving loans to borrowers who should never have got them in the first place. Now there is a real danger that these loans will not be paid back. And because the companies were not run efficiently,they continued to need more and more which the NBF continued to give in the mistaken belief it was protecting its interest. In effect, the bank was using taxpayers' funds to subsidise some borrowers who should have gone bust.

'By continuing to give additional loans, the bank has been running up a quasi-fiscal deficit,' says Vunibobo. 'In other words, the management has been making decisions that cabinet and Parliament should have been making.'

❑ *An excerpt from Yashwant Gaunder's July 1995 report in* The Review.